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## **Purchasing in a complex humanitarian institution:**

### **The Portuguese Red Cross**

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## **Abstract**

Choosing the purchasing strategy of an organization can be a complex process. Some organizations have rooted habits that are extremely difficult to change. The Portuguese Red Cross (PRC) is a highly diversified institution where each branch works independently. Currently, the PRC purchasing strategy is not well defined for delegations. After assessing the purchasing process, two different strategies were considered as possibilities for the future. However, it became clear that a full centralization would not be the ideal model due to many resistance factors. In the end, it seemed that the best purchasing approach for the PRC would be a hybrid progressive partially centralized strategy.

Keywords: centralization, decentralization, purchasing.



## Red Cross overview

### A little bit of history

The International Committee of the Red Cross was founded in 1863 in Geneva. Its main purpose was to provide emergency medical services during warfare. Over the years, the International Committee of the Red Cross expanded and increased the scope of its mission, leading to the creation of the International Federation of Red Cross and Red Crescent Societies (IFRC). The IFRC ensures a daily presence on 190 National Societies nations and their scope is directed towards the assistance of the poor and those in need (Dall 2007)(IFRC 2016). This federation is the world's largest, most well-known and influential humanitarian network (Dall 2007). Its mission is the defense of human dignity, health and life. This institution has 100 million members and volunteers.

The movement is divided in three different types of organizations that share the same principles: (1) The International Committee of the Red Cross, the first of all the movement's organizations to be founded, whose main missions are the protection of human life during armed conflicts and lobbying for the respect of international humanitarian law; (2) The IFRC that coordinates relief missions in cases of large scale emergencies, such as natural disasters; (3) The National Red Cross and Red Crescent Societies that act on specific countries and have a very significant worldwide representation (covering 97% of the world's nations).

The Portuguese Red Cross (PRC), headquartered in Lisbon, was founded in 1865 and is the only Portuguese member of the IFRC. The PRC follows the general mission and guidelines of the IFRC. The main operations in Portugal are related to humanitarian and social assistance, especially to vulnerable groups (the elder, homeless, poor, among others). Also, the PRC trains professionals of emergency health services and the emergency aid in cases of natural disasters. Annually, about 1 million people, approximately 10% of the Portuguese population,

benefit from the services and activities of this institution (Sampaio 2015). Simultaneously, the PRC has been acting in armed conflicts in areas that have a long standing tradition of Portuguese influence, like Angola, East Timor and Mozambique, among others. Overseas operations are done in light of the mission of the International Committee of the Red Cross. Inside the scope of such operations are also cases of natural disasters as floods, tsunamis, earthquakes and epidemics (e.g. H5N1 virus 2007-2009).

This dissertation will focus on the purchasing procedures that PRC delegations implement in order to comply with their daily health services and humanitarian assistance in Portugal.

### Current situation

Currently, the PRC has 177 structures, of which 172 are local delegations that cover the different regions of Portugal (Appendix 1 and Table 1). In order to coordinate the work of the local delegations, the PRC has a central service operation based in Lisbon that answers directly to the board of the PRC.

Table 1 – PRC number and type of structures.

Type of Structure	Number of structures
Local Structures	172
Local Delegations	135
Extensions	17
Humanitarian Centers	20
Escola Superior de Saúde	1
Nursing School of Oliveira de Azeméis	1
Professional School of Tasso Figueiredo	1
Military nursing home	1
Hospital	1
Total	177

The central service of the PRC assists the board in preparing and supporting the execution of its decisions and provides functional support to the local delegations. Amongst its roles, the following are highlighted: Managing the social action of the organization, Fundraising, Financial control, Management of legal affairs and other roles.

The PRC also has autonomous services that are focused in emergency assistance and healthcare services: a first-aid school in Lisbon, nursing and health care schools, the Red Cross Hospital of Lisbon, a nursing home for war veterans and close relatives, healthcare units, clinics, temporary shelters for children at risk, intensive care units, among others (Sampaio 2015). According to the IFRC, during the year 2013 alone, the PRC counted with almost 12,000 people working for the institution and 750,000 people were reached through the PRC programs (Table 2).

Table 2 – Number of people involved with the PRC in 2013 (Societies 2013).

Type of interaction with the PRC	Number of people
Volunteers	11,000
Paid Staff	1,866
Reached by disaster response and early recovery programs	86,150
Reached by long term services and development programs	620,125
Covered by disaster preparedness programs	38,591

The PRC is mainly dedicated to emergency and medical transportation, social support and medical services (Table 3 and Appendix 2). Because of the different type of activities provided by the PRC, procurement and purchasing of different goods and services are required. Most materials, products and goods are bought directly by each local delegation, whilst the procurement and purchasing of services, such as insurance, energy, communication networks, among others, is made by the central services in Lisbon.

Table 3 – Areas where the PRC develops their work.

Activities	Number of delegations
Medical and transportation emergency services	150
Social Support	119
Medical Services	103
Training	61
Elderly Care	54
Technical support	53
Infant Care	28

These ideas will be further discussed in this dissertation.

### Methodology and Research Questions

The three main questions for this work are: (1) How does the PRC currently manage purchasing? (2) Why is PRC not taking advantage of a centralized purchasing process? and (3) Why is the PRC not able to fully centralize purchasing?

To achieve answers to these questions, the chosen methodology was the Case Study because it is the process that answers to questions that begin with “How?” or “Why?” and it goes in line with the “desire to understand a complex social phenomena” as well (Yin 2009). Furthermore, this method allows: a rigorous presentation of data, does not intend the control of behavior and focus on contemporary events (Yin 2009). It is particularly common that when writing a case study, authors resort to interviews, observations and archives as sources to collect data. This multiple data collection allows for triangulation and subsequently stronger hypotheses substantiation (Eisenhardt 2016). In this case, data was collected through archives, observation and semi-structured interviews. This type of interview grants interviewees the freedom to express their ideas (Foundation 2016), while providing rich and in-depth data that will allow a better understanding of the situation (Piercy 1998). To conduct these semi-structured interviews, an interview guide was prepared, containing open questions

and the topics that needed to be explored. Before building this guide a few conversations were held to understand what the interviews must cover (Piercy 1998) (Appendix 3). The cooperation and insights provided by the 15 PRC workers and volunteers from the headquarters and 14 delegations were very enlightening. Their answers and inputs provided most of the data used in this study. Even though the sample is reduced, the research method used is believed to provide valid observations on how the PRC conducts purchasing. Finally, after collecting information, to better understand the institution's characteristics and environment, a SWOT analysis will be conducted (Dess, McNamara, and Eisner 2016).

### **Literature revision**

Procurement is the process that leads to the acquisition of services, goods, materials or properties that are fundamental to an organization (Organization 2011). In a nutshell, procurement phases include (1) Planning and forecasting, (2) Identification of needs, (3) Sourcing, enquiries, (4) Offers' evaluation, (5) Award of contract and (6) Contracting and contract administration (Organization 2011). Due to the economic crisis, the financial pressure companies and institutions face has been increasing, hence supply chain integration became more attractive to practitioners (Iannone et al. 2014). To maximize value through procurement effective coordination of sourcing, purchasing or distribution is crucial. Therefore, the enlarged agenda of procurement must now include (1) stabilizing the entire value chain (2) improving shared values among the participants of the business networks and (3) strategically integrating procurement practices to guarantee a sustainable supply chain competitive advantage (Figure 1) (Hong and Kwon 2012). In fact, procurement management is seen both as a strategic tool towards the creation of long term value and a strategic priority for firms that wish to maintain sustainable competitive advantage in these tough times (Hong and Kwon 2012)(Crespo De Carvalho and Encantado 2006). Some companies gained these

advantages through a centralized supply chain and just-in-time purchasing (Niezen and Weller 2006).

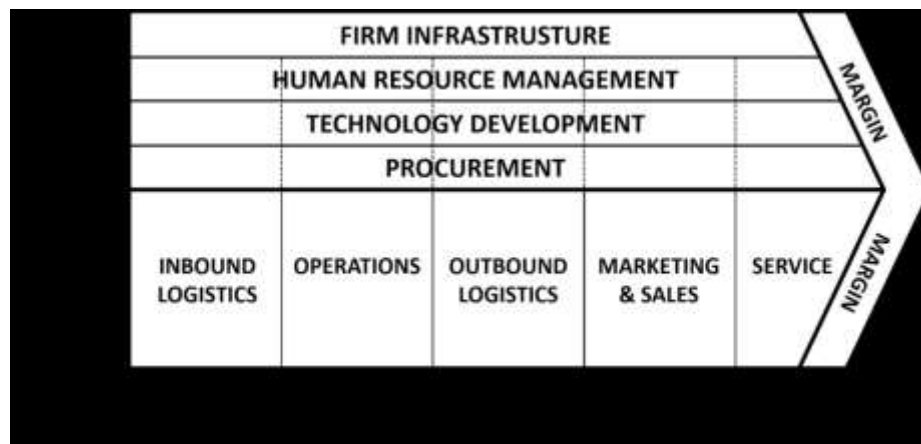


Figure 1 – Value chain and the position of the purchasing department (Porter 1985).

Finally, for organizations that consider purchasing as a strategic activity, the Offer's evaluation would be included in this department area of action, converting it in more than just an administrative step of procurement (Ellram and Carr 1994).

### What is purchasing?

Conventionally, purchasing intendeds to “buy the materials of the right quality, in the right quantity, from the right source delivered to the right place at the right time” (Lysons 2006). This definition describes purchasing as a “merely supportive and supplementary operational activity, with little significance on a firm's performance”. However, as with procurement, the strategic role of purchasing has been gaining importance in the decision making processes of organizations (Ellram and Carr 1994) (Carter and Narasimhan 1996)(Gadde and Håkansson 1994). So, in a matter of years, a previously operational and uninteresting activity was recognized as being tactical, integrating product, process and supplier selection and contracting (Apostolova et al. 2015). Currently, companies use strategic purchasing defined as “the process of planning, implementing, evaluating and controlling strategic and operating purchasing decisions for directing all activities of the purchasing function toward

opportunities consistent with the firm's capabilities to achieve long term goals" (Apostolova et al. 2015). This new definition is characterized by its reactive approach, acts as a critical driving force that will not only fulfill purchasing previous tasks, but also develop logistic activities throughout the value chain. Furthermore, purchasing departments work alongside suppliers to "jointly pull costs out of the product or service" (Monczka et al. 2011), reaching mutually advantageous goals (Apostolova et al. 2015). The strategic importance of purchasing is attributed to five aspects that highlights the importance of the relationship between suppliers and organizations: (a) the intention of cutting unit costs, (b) the intention of reducing total acquisition costs, (c) the influence of suppliers on the purchaser's ability to respond to customers on time (this aspect is particularly relevant in health services providers), (d) the trend towards fewer suppliers and (e) the trend towards relying on suppliers' suggestions, expertise, and solutions to specific problems (Chen, Paulraj, and Lado 2004).

#### What possible Purchasing Strategies exist?

In what concerns strategy, our focus will be on centralized purchasing, decentralized purchasing and a combination of both which is called hybrid purchasing (Apostolova et al. 2015). The concept of centralized purchasing should emerge when two or more locations have common requirements (Corey 1978). Some authors characterize it as the coordination of the purchasing activities across business units, where headquarters acquire all products for the organization (Hu 2004)(Knight, Tu, and Preston 2014). When dealing with centralized purchasing, well-established communication lines between the departments are essential to avoid, for example, maverick buyer bias (Monczka et al. 2011). Contrarily, decentralized purchasing implies that each individual unit is responsible for its own purchasing (Van Weele and Rozemeijer 1998)(Apostolova et al. 2015). Table 4 exposes some of the main points in favor and against both centralized and decentralized purchasing. Throughout the past years,

centralization has become a trend, both for public and private organizations (Faes, Matthyssens, and Vandenbempt 2000)(Sorenson and Kanavos 2011).

Table 4 – Purchasing strategies: Centralized vs. Decentralized purchasing.

	Centralized purchasing	Decentralized purchasing
Advantages	<ul style="list-style-type: none"> <li>• Increases professionalism due to better informed purchasers and lower costs of labor (Hu 2004)(Corey 1978)</li> <li>• More leverage during negotiations – economies of scale (Karjalainen 2009)(Corey 1978)</li> <li>• Better performance: more units/services bought per acquisition, reduced administrative costs, (Hu 2004)(Apostolova et al. 2015)</li> <li>• Standardization of purchased products and materials (better quality control)</li> <li>• Absence of competitive buying between units of the same organization (Quayle 2006)</li> <li>• Standardized purchasing model: increased efficiency, purchase ethics and reduced risks of favoring particular suppliers – corruption prevention (Iannone et al. 2014)</li> <li>• Better control and efficiency in usage of products and inventory (Hu 2004)</li> <li>• Price-quantity discount (Iannone et al. 2014)(Apostolova et al. 2015)</li> <li>• Savings in warehousing and inventory costs (Corey 1978)</li> </ul>	<ul style="list-style-type: none"> <li>• Improved purchaser-supplier relationship</li> <li>• Purchasers have better knowledge of the requirements of the products or services to be acquired (Bedey et al. 2008).</li> <li>• More flexible, allowing a better adaptation of purchasing to what the specific case of each unit – may or may not be an advantage, depending on organizational policies (standardization vs. personalization)</li> <li>• Direct knowledge of suppliers and local conditions allows the fitting of purchasing which may improve efficiency</li> <li>• Lower transportation cost and risk (Gelderman &amp; Semeijn, 2006).</li> <li>• Take in consideration Local Heroes are firms and brands, which have a high reputation and high market-share in one region but are not present in the global market (Heimeshoff &amp; Klein, 2014).</li> <li>• Less bureaucratic (Gadde and Håkansson 2001)</li> <li>• Allows local, national and international suppliers to present proposals in equal grounds, which ultimately leads to an increase in offer and may decrease in prices (Karjalainen 2009) &amp; (Paulraj, Chen, and Flynn 2006)</li> </ul>



	Centralized purchasing	Decentralized purchasing
Disadvantages	<ul style="list-style-type: none"> <li>• Increased bureaucracy in the initial stages of centralization (Karjalainen 2009) (Knight, Tu, and Preston 2014)(Van Weele and Rozemeijer 1998)</li> <li>• Requires better planning</li> <li>• Aggregation of demand = aggregation of supply: risk that very few suppliers can meet demands, leading to possible collusion and increase in prices</li> <li>• Transportation cost could increase (Hu 2004)</li> <li>• Harder to react on short-notice orders (Hu 2004)</li> <li>• May have higher internal costs associated to the control of contract compliance (Karjalainen 2009)</li> <li>• Eliminates local / small suppliers due to incapacity to meet demand (Karjalainen 2009)</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of strategic view and of an overview of material flow</li> <li>• Reduced negotiation leverage and lack of economies of scale</li> <li>• Difficult coordination between units</li> <li>• Lower efficiency (Apostolova et al. 2015)</li> <li>• No economies of scale</li> <li>• Low “bargaining power”</li> </ul>

However, as discussed in Table 4, the right choice between centralized and decentralized purchasing is ambiguous and depends on the particular situation, type of products, activities of the organization, market conditions and even on the structure of the organization. In an ideal case, the optimal solution would allow economies of scale and competition between suppliers, whilst maintaining the flexibility of decentralized purchasing. Actually, there is a conciliatory strategy that organizations usually opt for, denominated as hybrid purchasing. This approach is a mixed system that purchases part of the items centrally and the other part in a decentralized manner (Apostolova et al. 2015).

Although a centralized purchasing process has many advantages, when it is not in place, it seems to cause some resistance to its implementation. Some of the motives for this resistance can include: the loss of direct control over the purchasing function, long lines of communication on purchasing decisions and fear of change (Corey 1978). Also, the decision to centralize typically implies incurring in fixed costs before any cost reduction which can be discouraging (Vagstad 2000). Companies are choosing other strategies than the centralized and decentralized, such as the hybrid model (Johnson and Leenders 2006). Hybrid purchasing

allows organizations to benefit from the specificities of each of both centralized and decentralized purchase systems. The main challenge of hybrid purchasing is to decide which items should be bought centrally and which should be acquired locally by each subsidiary (Faes, Matthyssens, and Vandenbempt 2000). To deconstruct this issue, category management can be used (Apostolova et al. 2015).

#### What about purchasing in social services?

Social services include a broad range of services such as education, food subsidies, job training, health care, housing and community management, among others. With this variety of services, organizations intend to create stronger communities as well as promote equality and opportunities (Sciences 2016). For the purpose of this study, patient transportation (emergency or regular), health care, nursing homes and home support will be the activities at the center of the discussion. In the case of health service providers, effective procurement aims mostly at reliable delivery dates, assurance of medical goods and equipment quality, low prices provided that quality and serviceability are up to standard (Hong and Kwon 2012)(Hong and Kwon 2012). These types of services have some demands that need to be properly addressed when deciding on a purchasing strategy. Flexibility, reliability, lead times without delays and avoiding risks of stock depletion are essential (Chandra 2008). Also, healthcare industry has to assure high quality standards on its supplies and equipment. The issue raised by some authors is that health care is only concerned about quality of patient care and clinical services, disregarding quality of purchasing. In addition, the rationale that lower costs will lead to worse purchasing may not be true and to aggravate this parameter, measuring the quality of healthcare services and goods is very difficult (Øvretveit 2003). Nevertheless, centralized purchasing is often the choice for developing nations in an attempt to improve purchase ethics. Concerning decentralized procurement of medicine supplies, if purchasing is local, typically lower quality staff will make the purchase and quality control

procedures will be poorer (Øvretveit 2003). To reduce stocks and administrative costs and ensure accountability, centralized procurement with proper communication channels between units, with a centralized buffer stock, is a suitable mean to reduce the risks of stock depletion (Dickens 2011).

### **How does Portuguese Red Cross manage purchasing?**

The PRC is a complex organization that currently has 172 independent delegations spread widely though the Portuguese territory. Some of these branches have a dozen of users a week, while others may have hundreds of users per day. Some are humanitarian centers, others are day cares, nursing homes, among others. The reality differs a lot from delegation to delegation. The main rules branches have to obey are: to follow PRC mission, present the financials, being sustainable and discuss any important decisions with headquarters.

Moreover, each branch has its own value added tax identification number and headquarters approval to purchase according to the delegation's needs. An important feedback from headquarters is that, over the past years, treasury constraints have increased due to Portugal's economic situation which was reflected in a significant reduction of purchasing and stocks.

Through several interviews, a pattern seems to be found on how purchases that do not request special conditions are conducted. The regular method to acquire an item is: (1) to receive an e-mail or a paper form with the need, (2) search the market for at least three different suppliers, (3) write a small report with the conditions of the suggested supplier that is sent to the general director of the delegation, (4) this director may or may not accept and approve the purchase, (5a) if the general director accepts, the order will be placed, (5b) if the order is not accepted, the report will be adjusted so that the procedure may follow its regular path. If a purchase is related to a product or equipment that demands assistance, repair or specific consumables, other methods such as protocols may be put in place. However, these methods

are not standardized or clear. According to the headquarters, these described processes consume a considerable amount of time which may increase lead times. About the selection of suppliers each delegation has its own method, and some delegations were not able to explain the motive to work with their suppliers other than “it was always this supplier”, “they have excellent quality” and “this supplier always delivers on time”.

Table 5 – Interviews analysis.

Interviewee number	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Communication as a problem	☐	☐	■	☐	☐	☐	☐	■	☐	☐	☐	☐	☐	☐	☐
Communication flows properly	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Disbelief in headquarters	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Autonomy	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
3 Suppliers method	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Quality Concerns	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Prefers to work without the other delegations	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Sees value in future joint work of headquarters and delegations	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Relates quality of the provided service with the product quality	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Centralization	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Hybrid centralization process	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Close relationship with local suppliers and support of the local economy	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Concerns about product or service shortage or late delivery	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Financial difficulties	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐

■ Mentioned the subject several times, ☐ Mentioned the subject more than once, ☐ Mentioned lightly the subject, ☐ Did not mention the subject.

In addition, some respondents referred that some suppliers are expensive, but their quality was very good. Unfortunately, the transparency of this process is not up to the PRC standards. In Table 5, it is possible to observe some highlights of the interviews conducted with the PRC workers.

Concerning **centralization** there are some interesting remarks to be done. First, headquarters refer that there is a strong wish to centralize services and products. In relation to delegations, opinions diverge since some find centralization a great opportunity and others see no value in it and believe their delegations are better off with decentralized purchasing. Second, headquarters have already created some protocols with suppliers. For instance, PRC uniforms are all acquired to the same supplier. However each delegation orders the uniforms independently for a fixed price negotiated by the headquarters purchasing department. Third, in 2014, headquarters did a major attempt to purchase insurances centrally. This purchase centralization could not have been a worse experience. All delegations were forced to change to the insurance company chosen by the headquarters and then the company was not able to neither adjust some insurance policies nor activate them. During the interviews several PRC workers complained that there were still problems to be solved regarding the issue. The insurance situation was such a poor experience that it set a negative tone for future attempts to centralize the purchasing of either services or products. On the other hand, telecommunications are all bought to the same company and run smoothly, but again, each delegation buys directly to the telecommunication company and not through a purchasing central. Fourth, some interviewees consider services easier to centralize due to the absence of delivery, while others divide what should and should not be centralized according to their experience. For example, telecommunications, electricity, vehicles and equipment purchases are, by some, perceived as the ones to centralize. In opposition, car maintenance, insurances and diverse maintenance services are anticipated to create more difficulties than advantages in

the case of undergoing a centralized purchase process. Fifth, some interviewees mentioned that as a humanitarian organization, PRC intends not only to help people in need, but also the communities where they insert themselves. This thought is a direct objection of fully centralized purchasing. Finally, regarding centralization, since delegations are autonomous, they enjoy that freedom and some of the delegations demand the right to choose what and from whom they are buying. Some respondents even said “I do not like mixing things” and “this is my delegation, I am entitled to choose the products we buy”.

Another aspect that was mentioned by several interviewees is that due to the very high levels of autonomy, **communication** between headquarters and delegations as well as among delegations may be insufficient. This situation was especially mentioned by delegations with directors that do not visit headquarters frequently. Several delegations mention that when they contacted headquarters, their workers were always very friendly and efficient to help with the situation. However, most of the contact between headquarters and branches is done through e-mail which does not allow a closer relationship and natural sharing of experiences. More, the lack of communication may fuel feelings of distrust towards the headquarters’ intentions or dislike against other delegations. Still about communication, when questioned about which items had already a developed protocol or had been centralized, one delegation was not able to answer and did not have a document or any type of list containing those information. In fact, most protocols are available in the PRC intranet, unfortunately some workers do not have this information. Also, headquarters disclaimed that a major challenge with the current situation is obtaining updated information about the purchasing of the entire institution which weakens their bargaining power.

Some interesting facts are that: (1) In the region of Alentejo, the delegations of Alcáçovas, Beja, Colos, Elvas, Estremoz, Évora, Portalegre, Redondo, Safara, Sobral da Adiça and Vila Viçosa have been meeting with the objective of creating synergies or even a small purchasing

central. However, some interviewees from those delegations were not informed about this attempt. (2) It seems that in Braga, the delegation was able to develop internally a purchasing central which is only working for that delegation. (3) Laboratório Militar is a supplier for the humanitarian center of Lisbon. This supplier is particularly interesting due to special conditions it offers, like just-in-time deliveries, keeping a safety stock and monitoring the expiration date of the products. When the expiration date is approaching the limit (e.g. 6 months before), this supplier sells the products to another buyer, replacing it for another with a longer expiration date.

To conclude the main insights drawn from interviews, several delegations and headquarters disclosed their will to have an informatics program to manage purchasing.

### Possible solutions for the PRC purchasing future

Currently, the PRC is purchasing almost every product and service locally which is very close to a decentralized purchasing process.

Table 6 – Suggested scenarios of future purchasing strategies.

Scenario 1: Fully centralized purchasing strategy	Scenario 2: Partially centralized purchasing Strategy
<ul style="list-style-type: none"> <li>• All products and services would be centrally negotiated;</li> <li>• All products and services would be purchased through a purchasing central.</li> </ul>	<ul style="list-style-type: none"> <li>• Partially centralized purchasing with three regions: North, Center and South purchasing centrals;</li> <li>• Hybrid purchasing process;</li> <li>• Main services as telecommunication and electricity should be fully centralized;</li> <li>• To reduce the risk of suppliers' delays or stock outs, each central should have more than one supplier for each product, which will allow for some choice and mitigate the idea that delegations lost power;</li> <li>• Delegations stratification according to yearly purchasing expenses;</li> <li>• Progressive increase in the purchasing centralization.</li> </ul>

Considering all the collected information about the PRC, many scenarios could be explored in order to decide which would be the best approach for the future. For the purpose of this work, the focus will be on a fully centralized versus a hybrid progressively increasing partially centralized purchasing strategy (Table 6).

### **Dynamic SWOT for the two proposed scenarios**

This analysis has the regular SWOT as a starting point. However, instead of making a simple characterization, the dynamic SWOT overcomes the static analysis and develops strategies to maximize the positive aspects while minimizing the negative ones (Dealtry 2016). Based on the previously described situation about the PRC purchasing process, a discussion of the alternatives will be conducted using a dynamic SWOT for each scenario. First, to generate a regular SWOT, an internal analysis should be conducted. This internal analysis of PRC should include subjects such as culture, expertise, resources and unique qualities. Adaptability to changing circumstances is also an important factor to be considered (Team FME 2013). To initiate this analysis, the case will focus on Strengths, meaning characteristics that add value to the organization (Team FME 2013). The PRC has an excellent public image which is a product of years of responsible work to the community. More, the PRC's employees and volunteers have a bigger purpose: to help people in need; and in this sense, people may be motivated to pursue objectives against their judgment for a greater good. A purchasing strategy shift is not the hardest scenario that this organization has to overcome. Over the years, the PRC has handled tougher situations gracefully. Due to its large structure, if purchases are all negotiated by one person or department instead of 172 delegations, the overall number of suppliers would decrease, increasing the amount purchased to each supplier and hence increasing bargaining power (Albano and Sparro 2010). With this strength, PRC



may generate better deals not only in terms of quantity discounts, but also shorter lead times, increased payment times and special stocks management.

It is also important to identify weaknesses which are the internal characteristics detrimental to growth (Team FME 2013). Diversity can be both a strength and a weakness, meaning that with different backgrounds workers and volunteers can generate better solutions for problems at hand. However, excess of diversity can increase the difficulty to standardize procedures and to achieve high volumes of the same product, among others. Both geographical and purchasing volume dispersion of the delegations generates logistic challenges. This can be explained because suppliers may not have the incentive to deliver to distant locations and delegations believe that the benefits do not pay the effort to change the present process. The poor communication between delegations and insufficient communication between headquarters and delegations are strong weaknesses that are inflaming some issues like: the clash of the branch's interests with the headquarters interests, the disbelief of centralization due to past failure (insurance), resistance to change and sense of entitlement. Another challenge to centralization of the PRC purchasing is the will to support local economy and the long lasting relationships with some suppliers. The PRC delegations perceive this support of local economy as a part of the social support of the population that surrounds the branch. Several delegations referred that even if some local suppliers cannot offer the same price as a large supplier, usually the local supplier values the branch's work and either donates products and work or donates money to the institution. Voluntary work is a significant part of the work in this institution. Some interviewees mentioned that PRC is not able to demand the disciplined and dutiful labor it asks from their paid workers. Additionally, there seems to be a lack of specialized work in the global supply chain management area and a strong request for technology acquisition to facilitate purchasing that was not possible yet.

The external analysis encompasses the environment where the organization operates, as well as the market, ecosystem and third parties involved.

Table 7 – SWOT for full centralization.

Strengths	Weaknesses
<p>1S. Excellent reputation and an elevated level of brand awareness;</p> <p>2S. Counts with employees and volunteers that have a bigger purpose;</p> <p>3S. Experience handling tougher situations gracefully;</p> <p>4S. Large structure = increase of quantity bought to each supplier = PRC has increased bargaining power.</p>	<p>1W. Delegations' diversity and geographical dispersion;</p> <p>2W. Poor communication;</p> <p>3W. Clash of the branch's interests with the headquarters' interests;</p> <p>4W. Will to support local economy and long lasting relationships with some suppliers;</p> <p>5W. Difficulty to maintain the level discipline of voluntary work;</p> <p>6W. Lack of specialized work in the global supply chain management;</p> <p>7W. Lack of technology to support the process;</p> <p>8W. Resistance to change.</p>
Opportunities	Threats
<p>1O. Economies of scale;</p> <p>2O. Economies of learning;</p> <p>3O. Increased savings;</p> <p>4O. More experienced negociators can identify possible synergies with suppliers and take advantage of them;</p> <p>5O. Allows for an increased transparency = standardization of purchasing processes including supplier selection and negotiations;</p> <p>6O. May clarify once again their unified purpose and the need to reach deeper into the PRC's culture.</p>	<p>1T. Difficult to obtain internal updated information;</p> <p>2T. Portuguese economic situation = cuts on the financial help that some mayers office offers;</p> <p>3T. Financials resources are less.</p>

There are several opportunities that can occur due to the alteration of the environment, technology, products, methods and so on (Team FME 2013). Economies of scale (Albano and Sparro 2010)(Wagner 1993)(Bals, Laiho, and Laine 2014) and economies of learning (Albano and Sparro 2010) are two important advantages that may occur in the case of purchasing centralization, creating increased savings for all. Furthermore, with more experienced negociators, it is easier to identify possible synergies with suppliers and taking advantage of it. This purchasing strategy will also allow for a raise of transparency (Albano and Sparro 2010) through standardization of all purchasing processes including supplier selection and negotiations. With increased transparency, there is the hope of a boosted level of trust of the branches on the headquarters. The PRC can maintain their good image assotiated with an innovative character. Finally, this type of purchasing demands for more communication and may clarify once again their unified purpose and the need to reach deeper into the PRC's culture.

To identify threats, the external risks the organization faces that are beyond its control must be assessed (Team FME 2013). Information is key and the internal updated information is not flowing through the organization which can lead to problems with suppliers. For example, if the organization orders the wrong amount of product due to the lack of information and then does not wish to keep or pay for it, a contract breach may happen leading to reputation problems. The Portuguese economic situation may worsen leading to more cuts on the financial help some mayors' office give. Because of the reductions that have already taken place, the financials resources are less and that means not being able to help more people which can demotivate staff, donors and volunteers (Table 7).

With the information revealed in the first scenario's SWOT, the PRC must use their Strengths and Opportunities to address their Weaknesses and prepare for future Threats (Table 8).

Table 8 – Dynamic SWOT for full centralization.

	Opportunities	Threats
<b>Strenghts</b>	<p>1O+4S: A large strucutre will increase the economies of scale;</p> <p>2O+4O+2S: Motivated workers can improve their skills to identify possible synergies with suppliers and economies of learning;</p> <p>6O+2S: PRC bigger purpose has to give incentive to unify and improve its culture.</p>	<p>1T+2S: PRC workers can be inspired to cooperate and provide update relevant information;</p> <p>2T+1S: Due to the PRC credibility and reputation obtaining help from public funds becomes more feasible;</p> <p>3T+4S: A large structure can create specialized workers that can negotiate better, lower prices and save money, so that when the financial resources are less, it is still possible to work.</p>
<b>Weaknesses</b>	<p>3O+7W: If the process can generate future savings, there may be incentive to invest in technology;</p> <p>5O+4W: The possibility to increase transparency on supplier selection may broaden the pool of suppliers;</p> <p>6O+2W+3W: with a clarified and stronger culture, communication can flow naturally and the interests of the headquarters and delegations can be aligned.</p>	<p>1T+2W: The communication problem has to be solved as soon as possible, once it can generate problems in several areas of the institution;</p> <p>1T+8W: Resistance to change associated to the ownership of information creates a very sensitive situation, so these problems have to be immediately addressed;</p> <p>2T+5W+6W: accountable, responsible and specialized work can create savings and improve the already existing good image;</p> <p>3T+3W+7W: with aligned objectives and technology support, the PRC can save money and therefore prepare for more difficult times.</p>

The second strategy has many points in common with the full centralization. This fact is explained because the end point of the partially centralized purchasing strategy is to place the institution's purchasing process as close as possible to a full centralization. However, instead of a disruptive immediate change, the second scenario allows for a softer and more sustainable shift (Table 9).

Table 9 – SWOT for partial centralization.

Strengths	Weaknesses
1S; 2S; 3S; 4S; 5S. Lower resistance to implementation than the full centralization; 6S. Local delegations will feel that they still have decision power on part of the process.	2W; 3W; 4W. Will to support local economy and the long lasting relationships with suppliers (less important than in a full centralization); 5W; 6W; 7W.
Opportunities	Threats
1O; 2O; 3O; 4O; 5O; 6O.	1T; 2T; 3T.

The partial centralization has all the strengths from the full centralization, and two new strenghts were added. Since this process is more inclusive and does not impose as many obligations as scenario 1, the resistance to its implementation is considerably lower. Also, the idea of a regional centralization with more than one supplier grants the possibility for the delegations to choose and to reward the best suppliers of the region with higher purchase volumes. Concerning weakness, the diversity of the branches is not as important because of the stratification proposed in scenario 2 that will divide large, medium and small delegations according to annual purchase expenditures. Opportunities and Threats are both exactly the same as for the full centralized approach. As in scenario 1, in scenario 2 the information produced in the SWOT analysis will be used to minimize Weaknesses and Threats through Strengths and Opportunities (Table 10).

Table 10 – Dynamic SWOT for partial centralization.

	Opportunities	Threats
Strengths	1O+4S 2O+4O+2S 6O+2S 6O+5S+6S: the feeling of involvement and control can facilitate the so needed unification and culture improvement	1T+2S 1T+5S: with lower resistance workers may have the will to make useful information available faster 2T+1S 3T+4S

Weaknesses	2W+3W+6O	2W+1T
	4W+5O	3W+7W+3T
	7W+3O	5W+6W+2T

## Discussion

A fully centralized strategy is very interesting for many reasons that were already mentioned. However not all companies and institutions can be centralized. The PRC is a heavy and complex structure constituted by a significantly diversified group of people: some are paid staff, others are volunteers, some have high education, others have no academic background but have a very rich experience and some are at the end of their careers, while others just started it. All this diversity creates space for different ideas and one thing is certain: some people do not want to change while others believe purchasing has to evolve. To accentuate this diversity, the PRC always gave management independency to its delegations. Meaning, each branch was able to independently take day by day decisions, such as supplier selection and simple purchasing. This sense of autonomy was frequently mentioned by branch workers and is perceived as a basic right. To pursue a full centralization would have a serious impact in the control some delegation directors are used to have, and as previously explained this is one of the main motives of resistance to the implementation of this strategy (Corey 1978). The PRC culture is becoming more and more degraded and although some of the principles, like credibility and compassion, are still being fulfilled, others like collaboration and creativity are falling behind (Cross 2016). A great concern with the full centralization is that the PRC culture would not support such a radical shift and it could end up even more fractured.

To attempt a more gradual change, the second scenario was created promoting a progressive implementation of a regional hybrid partially centralized purchasing strategy that would slowly migrate in the direction of a full centralization which may never be achieved. This

strategy goes in line with the organization wish to support local economy, while taking some of the main advantages of centralized purchasing. More, main services as telecommunication and electricity should be totally centralized because the local economy does not offer those services. With this compromise, the purchasing process can become more professional and supplier selection more transparent. Yet, some resistance to the changes that implementing this second strategy demands is foreseen. Even so, this resistance is expected to be significantly lower than the one from scenario 1. With the intent of minimizing this factor, the partial centralization will be applied as smoothly and as gradually as possible. To reduce the risk of suppliers' delays or stock outs, each regional central should have two or three suppliers for each product. For example, a central can buy 70% of the diapers to supplier A, 20% of the diapers to supplier B and 10% to supplier C, ensuring that if supplier A has a problem, the other suppliers will deliver the product. With this measure, delegations will still feel some sense of choice which can mitigate the idea that delegations lost the ability to choose their products and suppliers. Furthermore, instead of having a situation where local delegations feel like they are abandoning their long lasting relationships with their suppliers, delegations will have the opportunity of rewarding the best suppliers in the region. The selected suppliers will have higher volumes because they will be providing for a region instead of only one delegation. Additionally, competition among suppliers will increase and overall product and service quality is expected to also increase without incremental costs.

Because some delegations are resistant to change, the strategy should be implemented by stages: (1) in the first year delegations should buy between one fourth and one third of their products or services to the regional purchasing center, (2) on the second year the value should be close to half of the total volume of purchases and (3) by the fifth year almost all products must be bought through the purchasing central.

Nonetheless, due to the diversity of delegations it would be recommendable that branches would be stratified according to yearly purchasing expenses. In this first effort to implement scenario 2, small delegations should be included only if the branch director finds it helpful and interesting. Even so, for both scenarios, none of these improvements are possible if communication in all the organization is not enhanced. To do so, PRC could ask for a one page monthly report from all delegations, as well as organize quarterly regional meeting and an annual global meeting with all delegations. These meetings would address main issues and report the activity of the previous quarter with information gathered from the monthly reports. These measures will promote communication, sharing successes and difficulties, improved accountability and embrace one of the main principles of the PRC which is unity of the organization (Cruz Vermelha Portuguesa 2016).

In the current situation, either the delegations' interests are taken into account or the headquarters interests are taken into account, rarely both. For example, if a protocol is developed by headquarters the main value created will be captured by central services. By opposition, if a delegation negotiates directly with a supplier, this supplier may become a donor of money, products or services. In this case, the added value of the deal will be seized by the local delegation. The partially centralized purchasing will increase purchasing volumes and bargaining power which may increase discounts and profits that must be fairly divided by delegations and headquarters. This strategy can provide the right conditions so that both local delegations and headquarters can maximize the total value captured and the value each party can earn or save when compared to the current approach.

## Conclusion

Presently, the PRC does not possess a standardized purchasing management. In fact, each delegation acts according to what is perceived by the branch as the best approach. This



research question is particularly addressed in the section “How does the PRC manage purchasing?”

The decision on purchasing strategy is far from consensual (Crespo de Carvalho 2004). Lately, some efforts in the direction of centralization have been made in the PRC. It is a tough strategy to implement due to the current culture and limitations imposed by the institution diversity, as previously mentioned in the Discussion. Still, after contacting with the PRC, interviewing several of its workers and observing their behavior, our assessment and orientation is that this institution should not pursue a full centralization. Not all institutions can endure such a sudden and profound change. Contrarily, we truly believe that the PRC can benefit from by implementing the hybrid progressively increasing partially centralized purchasing strategy. For all the described arguments, but most of all because the PRC is an enormous institution that suffers from some inertia this progressive approach is most likely to succeed while allowing the PRC to benefit from the main advantages of the centralized approach. Finally, after this partial centralization strategy is in place, full centralization may become possible.

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## Appendices

### Appendix 1 – Distribution of the CVP's delegations



Available at the PRC internal documents.

## Appendix 2 – Distribution of the CVP's activities

<b>Activities</b>	<b>Number of delegations</b>
<b>Medical and transportation emergency services</b>	<b>150</b>
Disabled patients transportation	82
Emergency stations	40
Adapted transportations	15
Teleassistance	13
<b>Social Support</b>	<b>119</b>
Sports activities support	50
Cultural activities support	22
Canteens	17
Social shop	15
Bathhouse and Laundry	7
Temporary reception center	5
Insertion companies	2
Integrated support unit	1
<b>Medical Services</b>	<b>103</b>
Clinical analysis	8
Doctor's appointments	50
Complementary means of diagnosis	23
Rehabilitation Clinics	2
Physiotherapy	16
Kinesiotherapy	4
<b>Training</b>	<b>61</b>
First Aid Courses	57
Training Entity	4
<b>Elderly Care</b>	<b>54</b>
Home support	36
Nursing homes	8
Day center	6
Palliative care unit	4
<b>Technical support</b>	<b>53</b>
<b>Infant Care</b>	<b>28</b>
Nursery and Day care	13
Kindergarten	8
After school activities	7

### Appendix 3 – Semi-structured interview guide

Good morning, I am Maria Justino and I am here to talk with you about the purchasing process of the PRC. This interview is an important tool for the development of my thesis which is a part of the Masters in Management of the Nova School of Business and Economics. The main objective of this interview is to collect information about the current situation of the purchasing department and method. Your experience and expertise is appreciated, so please be as descriptive as possible. The collected data will be treated guaranteeing total confidentiality. Would you mind if I take notes and record this interview?

As general information, I would like to ask for the entire name, contacts, how long have you been working with the PRC and a brief description of your job.

Now I will start to discuss more specific matters, so can you please tell me about your delegation's purchasing procedure?

And since you have started to work with the PRC were there any changes?

Do you see any space for improvement of the current procedure?

Can you tell me what you envision for the future of purchasing? (Centralization)

Is there any other information that you may have for me?

In case I need some additional information, may I contact you?

Thank you so much for your time.